United Nations A/69/414

General Assembly

Distr.: General
3 October 2014

Original: English

Sixty-ninth session
Agenda item 132
Programme budget for the biennium 2014-2015

Seventh progress report on the adoption of the International Public Sector Accounting Standards by the United Nations

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the seventh progress report of the Secretary-General on the adoption of the International Public Sector Accounting Standards (IPSAS) by the United Nations (A/69/367). The Committee also had before it the fourth progress report of the Board of Auditors on the implementation of IPSAS (A/69/155). During its consideration of the reports, the Committee met separately representatives of the Secretary-General and the members of the Audit Operations Committee of the Board, who provided additional information and clarification, concluding with written responses received on 24 September 2014.

2. The Advisory Committee recalls that the General Assembly, in its resolution 60/283, approved the adoption by the United Nations of IPSAS. The Committee also recalls that the Secretary-General submitted progress reports on the adoption of IPSAS to the Assembly in 2008 (A/62/806), 2009 (A/64/355), 2010 (A/65/308), 2011 (A/66/379), 2012 (A/67/344) and 2013 (A/68/351). In his seventh progress report, the Secretary-General reviews the activities relating to the implementation of IPSAS at the United Nations Secretariat and other relevant organizations of the United Nations system during the reporting period (1 September 2013-31 August 2014). The report covers the activities being undertaken to implement IPSAS at the United Nations Secretariat, in addition to the activities of the system-wide IPSAS project team and progress made by the organizations of the United Nations system. Background information on the project is provided in paragraphs 1 to 5 of the report.

3. In his update, the Secretary-General indicates that 21 of the 24 organizations of the United Nations system have successfully adopted IPSAS and that the remaining three are in the process of achieving IPSAS compliance for the 2014

Please recycle

financial year. As for the United Nations Secretariat, the Secretary-General indicates that the IPSAS implementation project remains on track to deliver IPSAS-compliant financial statements.

II. Implementation at the Secretariat

Overview

4. Information on the implementation of IPSAS in the Secretariat is contained in paragraphs 7 to 74 of the report. The Secretary-General indicates that key project milestones were achieved during the reporting period, particularly for peacekeeping operations. These included the finalization of IPSAS opening balances and their review by the Board of Auditors despite a regrettable four-month delay, as well as the preparation of IPSAS dry run financial statements for peacekeeping operations as at 31 December 2013. The Secretary-General also indicates that, as at 1 January 2014, opening balances for other operations of the United Nations (under volume I of the financial statements) were being reviewed and consolidated and that the process of preparing dry run financial statements as at 30 June 2014 had begun. During its consideration of the Secretary-General's report, the Advisory Committee received confirmation that IPSAS-compliant financial statements for peacekeeping operations had been delivered according to schedule on 30 September 2014. The Committee was also informed that the financial statements for other operations of the United Nations would be delivered by 31 March 2015.

5. **The Advisory Committee welcomes the progress made in the implementation of IPSAS across the United Nations system as a whole and, in particular, at the United Nations Secretariat despite the delays that had hampered the progress of the project in its earlier stages. The Committee concurs with the comments of the Board of Auditors indicating that there is clear evidence that IPSAS has led to improved financial management processes across all entities and looks forward to seeing the results of these improvements in future reporting.**

6. Among its key findings, the Board of Auditors notes that the opening balances for peacekeeping operations were finalized four months later than planned (A/69/155, para. 12). Upon enquiry, the Advisory Committee was informed that although most opening balances had been prepared in time, there had been some delay in finalizing the opening balances for buildings, infrastructure assets and assets under construction because the data on those assets in peacekeeping operations were being collected for the first time. Furthermore, the Committee was informed, upon enquiry, that the roll-out of the Umoja enterprise resource planning system during the same period had also contributed to the delay, with many of the finance personnel involved in the preparation of opening balances being sent to peacekeeping missions to support the clean-up of open and unreconciled items in the Umoja system. For the above reasons, it was decided to reschedule the date of finalization of the IPSAS opening balances.

7. The Secretary-General, in figure I of his report, lays out the IPSAS project's major milestones in terms of preparation, pre-implementation, implementation and post-implementation phases, from 2012 to 2015. The Secretary-General indicates that the implementation activities at the core of those milestones were led by local IPSAS teams at offices away from Headquarters, regional commissions,

peacekeeping missions, special political missions and other offices, with guidance from Headquarters. Although progress in the IPSAS project has been affected by delays in the implementation of Umoja, temporary transitional measures outlined in paragraph 10 of the Secretary-General's report have been put in place to ensure that key milestones are achieved and that the project remains on track. The Secretary-General indicates that, in order to maximize progress for both projects, the Umoja and IPSAS projects continued to work closely and coordinate activities during the reporting period (A/69/367, para. 13).

8. **The Advisory Committee welcomes the achievement of a key milestone: the validation of the transitional measures for the preparation of the first IPSAS-compliant financial statements for peacekeeping operations. Nevertheless, the Committee reiterates that those measures are temporary (see A/67/564, para. 16) and that the successful implementation of the IPSAS project and the realization of its benefits will depend on Umoja being fully functional. In that regard, the Committee stresses the importance of continued collaboration between the two project teams.**

Accounting for inventory

9. In its sixth report on the adoption of IPSAS by the United Nations (see A/68/508, para. 12), the Advisory Committee commented on the consultations taking place between the IPSAS project team and the Board of Auditors on issues related to accounting for inventory and expressed the hope that such engagement would result in a policy that would enhance the efficient management of non-financial inventory, especially in peacekeeping operations. The IPSAS project team was of the view that the policy of treating non-financial inventory as an expense for accounting purposes was consistent with the relevant IPSAS standard on inventory while the Board's position was that the policy would contravene the principle of materiality since peacekeeping operations hold material levels of non-financial inventory. In his report, the Secretary-General indicates that, in order to resolve the issue, a desktop estimation methodology for valuing non-financial inventory in peacekeeping operations was developed. He also indicates that the methodology has been agreed upon and accepted by the Board of Auditors, and that peacekeeping missions have started applying it in their operations (see A/69/367, paras. 46-48).

10. **The Advisory Committee takes note of the positive outcome of the engagement between the IPSAS project team and the Board of Auditors in this regard and looks forward to receiving the Board's assessment of the effectiveness of this methodology in its future audit reports.**

Regulatory framework

11. In paragraph 30 of his report, the Secretary-General indicates that the regulatory framework for IPSAS is the structured set of documents comprising regulations, rules, policies, practices, procedures and manuals established to permit the consistent application of the standards and to support the realization of IPSAS benefits. The Secretary-General also indicates that, as part of the process to strengthen the framework, an accounting policy framework for IPSAS (ST/IC/2013/36) was promulgated in December 2013 and that 19 corporate guidance documents have been issued to provide more detailed operational guidance

(A/69/367, para. 31). The Secretary-General adds that an accounting manual that blends IPSAS policies with Umoja foundation processes is under development and will be published in electronic form to guide users in the processing of accounting transactions (ibid., para. 32). **The Advisory Committee welcomes the issuance of the IPSAS accounting policy framework, which provides a more detailed guide to the application of the standards to the United Nations Secretariat. The Committee trusts that the document will be kept up to date as the standards evolve and urges the Secretary-General to ensure that the accounting manual is completed and made available as soon as possible.**

Governance and risk management

12. In paragraph 14 of his report, the Secretary-General indicates that the IPSAS Steering Committee continued to provide strong oversight of the project during the reporting period, focusing mainly on managing key risks and issues, along with monitoring the deployment of Umoja and the enhancement of legacy systems connected to the transitional arrangements for IPSAS-compliant reporting (see para. 7 above). In paragraph 17 of the same report, he also indicates that both the Management Committee and the Independent Audit Advisory Committee continued to monitor the project, including the work towards IPSAS benefits realization and consultations with the Board of Auditors on inventory (see also paras. 9-10 above).

13. As regards risk management, the key risks and issues associated with the IPSAS project are laid out according to their likelihood and their impact on the project (see heat map presented in A/69/367, figure II). In paragraph 20 of his report, the Secretary-General indicates that, during the course of IPSAS implementation, the following risks have developed into issues: (a) the Umoja deployment timetable does not align with the IPSAS reporting timetable; (b) delayed Umoja implementation; and (c) clearing bank reconciliation, payroll and accounts payable open items in Umoja.

14. To address the first two risks, which relate to the slippage in the implementation of Umoja, the Advisory Committee recalls that, in February 2013, the IPSAS Steering Committee put in place transitional arrangements that included the enhancement of legacy systems and the use of the IPSAS parallel ledger in IMIS as the "book of record" for the production of the first IPSAS-compliant financial statements (see A/68/351, paras. 19-26). In his report, the Secretary-General indicates that these transitional arrangements will remain in place for the production of the second year of IPSAS-compliant financial statements owing to further delays in the implementation of Umoja (see A/69/367, para. 28).

15. The Advisory Committee recalls that the General Assembly, in its resolution 66/246, requested the Secretary-General to ensure that the implementation of IPSAS at the United Nations is completed no later than 2014, and reaffirmed that Umoja would serve as the backbone for implementation of the Standards. **In this regard, the Committee recalls the concern expressed by the General Assembly in its resolution 68/247, sect. II, para. 13, about the continued slippage in the implementation of Umoja and the significant risk this poses for the successful implementation of IPSAS and the realization of its expected benefits. The Committee trusts that the close collaboration between the IPSAS and Umoja teams will mitigate this risk.**

16. The Secretary-General indicates that the issue of bank reconciliation, payroll and accounts payable open items in Umoja has been addressed by realigning resources at field missions and by deploying teams of expert staff from Headquarters to select field missions. He also indicates that some technical enhancements have been made in Umoja and hands-on training has been intensified in the field missions (ibid., para. 20). Upon enquiry, the Advisory Committee was informed that the operational shortcomings underlying the issue had been identified and appropriate technical enhancements had been put in place to address them. The enhancements included the requirement for each payee to be registered in the system as a business partner before any transaction could be initiated and the daily feed-in of bank account transactional data by the banks, some of which had never provided such services before. The Committee was also informed that the unfamiliarity of finance staff with the new system had been a key factor and this was being addressed by intensified hands-on training in the field missions. As a result of these efforts, the Advisory Committee was informed that the backlog of open items had been reduced to levels considered non-material for the financial statements and that additional controls, which were expected to address the concerns of the Board of Auditors, had been implemented.

17. The Advisory Committee comments further on Umoja in its sixth progress report on the enterprise resource planning project.

18. In paragraph 21 of his report, the Secretary-General indicates that, during the reporting period, the risk associated with the use of multiple systems to record transactional data, as highlighted by the Board of Auditors, was added to the heat map of risks. In order to prepare IPSAS-compliant financial statements, the Board of Auditors lists in its report 11 systems and locations in which transactional data would be held (see A/69/155, table 2). The Board indicates that transferring that data to the IPSAS parallel ledger for the purpose of consolidating and preparing financial statements will involve a highly unusual and significant amount of manual adjustment, which carries a high risk of error (ibid., para. 40). In order to mitigate that risk, the Board indicates that it recommended the use of specific internal controls but that those controls had not yet been implemented nor had the consolidation process been completed at the time of writing its report (ibid., para. 41). **Recalling its earlier comments in that regard (see A/68/508, para. 10), the Advisory Committee reiterates its concern about the high level of risk involved in the transfer of data across multiple systems for the purpose of preparing financial statements. The Committee expects that every effort will be made to institute the system controls recommended by the Board of Auditors in order to mitigate this risk.**

Training

19. The Secretary-General indicates that, during the reporting period, the IPSAS team continued to deliver training through computer-based and instructor-led courses for both finance and non-finance audiences throughout the Secretariat. By August 2014, approximately 10,048 staff had completed computer-based awareness training, 9,124 staff had completed working-level training and 3,555 staff had completed intermediate training. The Secretary-General also indicates that advanced training for peacekeeping operations was conducted for 95 staff in Entebbe, Uganda, in May 2014 and that advanced training for non-peacekeeping operations is scheduled for December 2014 (see A/69/367, paras. 34-35). A training course for

senior management will be delivered in the fourth quarter of 2014 as part of a planned benefits realization training package (ibid., para. 40). Figure III in the Secretary-General's report summarizes the information on the training implemented by the project.

20. In June 2014, the Accounts Division conducted a three-day seminar for the Advisory Committee covering IPSAS concepts and the analysis of information in IPSAS financial statements. **The Committee expresses gratitude for the seminar and recognizes its value to its members.**

21. Upon enquiry as to what lessons could be drawn from the approach to training taken by the IPSAS project, the Advisory Committee was informed that a detailed training needs analysis undertaken at the beginning of the project had informed the development of a structured training approach. The analysis focused on raising awareness and on explaining, at a high level, the changes, challenges and benefits resulting from the adoption of IPSAS, and was followed by technical training at the introductory, intermediate and advanced levels, targeting the appropriate audiences. Other lessons included:

(a) The importance of providing as much hands-on practice as possible, to complement the conceptual and theoretical training;

(b) The need to describe the transition from the current way of doing business (the situation as it is) to the new way of doing business under Umoja (the situation as it will be);

(c) The importance of ensuring that end-users have the appropriate skill set and complete all the prerequisite reading and training, especially the computer-based training courses, before attending instructor-led courses;

(d) The importance of identifying end-user trainers that are strong transactional users and meet the necessary requirements, especially with regard to communication and knowledge-sharing skills. It was also important that such trainers complete prerequisite courses and participate in deployment-related activities in order to build their knowledge of the solution before attending train-the-trainer sessions;

(e) The usefulness of developing a standard training toolkit for trainers that includes an instructor outline, a facilitation guide, exercises, a course agenda for distribution to end-users, a user manual, job aids and a supporting presentation. It was explained that such a toolkit would ensure that Umoja trainers and end-user trainers have sufficient support materials to deliver training courses and that the quality of the training is standardized. Furthermore, it would also ensure that end-users have step-by-step guides as reference material to consult during and after training.

22. **The Advisory Committee commends the systematic approach to training that has been taken by the IPSAS project team, as well as the effort made to extend the training to as wide an audience as possible. In view of the challenges encountered by the Umoja project in the area of user training and the importance of Umoja to the realization of IPSAS benefits, the Committee recommends that the Umoja project draw lessons from the experience of the IPSAS project.**

Benefits realization

23. In paragraphs 62 to 66 of his report, the Secretary-General discusses the benefits realization plan for IPSAS, which is based on the five major benefits outlined in his report on investing in the United Nations for a stronger Organization worldwide (A/60/846/Add.3) and approved by the General Assembly. The detailed plan, which was endorsed by the IPSAS Steering Committee in June 2014, states the benefits in more detail and establishes key performance indicators, as well as timelines for the realization of the benefits. The Secretary-General indicates that the plan was presented to the Management Committee of the United Nations Secretariat in July 2014 and would be endorsed in the fourth quarter of 2014, taking into account the comments of the members of the Management Committee. He also indicates that, while some benefits, such as improved property management, would be more discernible in the early phases of IPSAS adoption, other benefits, such as improved longer-term financial risk management, would materialize over the longer term, as the Organization continues to adjust to IPSAS (see A/69/367, paras. 64-65). **As a result of the adoption of IPSAS, the Advisory Committee notes the availability of key information, such as liquidity ratios, which will enable a comparison of financial viability across different entities and time periods.**

24. Upon enquiry as to whether an overall cost-benefit analysis of the IPSAS project could be carried out, the Advisory Committee was informed that the implementation of a new accounting framework such as IPSAS was neither as amenable to a clear-cut cost-benefit analysis as other types of projects nor had it been set up in a way that would facilitate the measurement of improvements. For instance, many of the costs of implementation may have been absorbed into core costs over time. Furthermore, determining the causality between IPSAS and benefits such as improved financial management and decision-making may be difficult where other contributing improvements such as Umoja are involved.

25. **Recalling its earlier comments and observations (see A/68/508, para. 19), the Advisory Committee commends the Secretary-General for the progress made in developing the benefits realization plan and expects that it will be finalized for implementation as soon as possible. In that regard, the Committee stresses the role of managers in ensuring the delivery of these benefits throughout the United Nations Secretariat. The Committee recommends that the General Assembly request the Secretary-General to track and report on the realization of benefits. Furthermore, the Committee reiterates the view that further benefits should continue to be explored as the implementation of IPSAS progresses (ibid.).**

Project budget and expenditures

26. The Advisory Committee recalls that the General Assembly, in its resolution 60/283, approved the resources requested to permit the Secretary-General to begin implementation of IPSAS. In 2012, the Committee was informed that the indicative budget, which was originally approximately $23 million, had been increased to $27 million, comprising $10 million from the regular budget, $12.8 million from the support account for peacekeeping operations and $4.2 million from extrabudgetary sources (see A/67/564, para. 17). In paragraph 74 of his report, the Secretary-General presents a table entitled "Project budget and expenditure for IPSAS adoption at the United Nations" showing appropriations from the regular budget and

the support account for peacekeeping operations up to the 2014-2015 biennium, as well as expenditures up to 30 June 2014. According to that information, the total expenditure from the regular budget and the support account from the start of the project in 2006 to 30 June 2014 amounted to $17.6 million. The notes to the table indicate that an additional $2.3 million had been incurred from extrabudgetary sources over the same period.

27. **The Advisory Committee notes that the reported expenditure for the project has remained within the indicative budget estimate. The Committee reiterates that every effort should be made to contain project costs within the approved level of resources. In addition, the Committee calls for close monitoring of total project costs to ensure that all expenditures attributable to IPSAS project activities are tracked and recorded appropriately and that any additional resources deployed owing to delays or issues associated with the implementation of Umoja be identified.**

III. Implementation across the United Nations system

28. As indicated above, 21 of the 24 United Nations system organizations have implemented IPSAS successfully and, for the financial year 2013, all entities have received unqualified audit opinions on their financial statements. The Secretary-General indicates that these entities continue to carry out post-implementation activities to sustain IPSAS compliance and to ensure the realization of IPSAS benefits. As for the three remaining entities (the United Nations Secretariat, the Food and Agriculture Organization of the United Nations and the World Trade Organization), the Secretary-General indicates that they are on track to produce their first IPSAS-compliant financial statements in 2014, having already achieved critical milestones such as the establishment of IPSAS opening balances as at 1 January 2014.

29. The Secretary-General indicates that all United Nations system entities continue to work collaboratively towards their IPSAS implementation and post-implementation goals through the United Nations System Task Force on Accounting Standards (see A/69/367, para. 77), as well as the system-wide team. The activities of the Task Force and the system-wide team mainly comprise: interaction with the IPSAS Board and providing feedback to United Nations system entities; providing guidance on specific IPSAS requirements; organizing thematic focus groups to discuss specific accounting issues; managing divergences between United Nations entities in the interpretation of accounting standards and facilitating better understanding of the standards; and working with the Panel of External Auditors to address recurring financial reporting issues (ibid., paras. 79-87).

30. According to the Secretary-General, it is expected that, by mid-2015, all 24 United Nations system entities will have produced IPSAS-compliant financial statements and received audit opinions from the Board of Auditors, after which, the IPSAS project team is scheduled to wind up its post-implementation activities. He also indicates, however, that the need for a supporting structure to lead the long-term sustainability of IPSAS compliance beyond 2015 will remain (ibid., para. 67). Upon enquiry, the Advisory Committee was informed that the need to maintain a supporting structure within the Organization had been recognized. The Committee was further informed that, at the United Nations Secretariat, this transitional

supporting structure would lead the IPSAS sustainability effort to be geared towards: (a) managing the regulatory framework; (b) strengthening internal controls; (c) training and developing skills; (d) reviewing Umoja processes and transition arrangements; and (e) coordinating IPSAS benefits management activities.

IV. Fourth progress report of the Board of Auditors on the implementation of the International Public Sector Accounting Standards

31. The Board of Auditors acknowledges that the adoption of IPSAS has led to improved financial management processes, in particular with regard to monthly and year-end financial closing processes and to the availability and quality of financial information (see A/69/155, para. 4). The Board also acknowledges that this information lays the foundations for greater transparency in relation to the costs of operations and supporting improved decision-making. According to the Board, the challenge, going forward, will be whether the United Nations system entities can translate the new information into measurable improvements in operations and the cost-effective delivery of mandates. The Board is of the view that more progress is needed in this regard and has indicated that this is where it will focus in its future audits of the entities (ibid., para. 16).

32. The Board has indicated that its fourth progress report will be its final report on the implementation of IPSAS. From 2015, all United Nations entities within the Board's portfolio will have implemented IPSAS, and the progress being made in using the new information generated by this change in accounting framework will be embodied in the Board's entity-level reports (ibid., para. 5).

33. **The Advisory Committee commends the Board of Auditors for the important role it has played in guiding the implementation of IPSAS throughout the United Nations system through its observations and recommendations, as well as its engagement with the project team on specific issues of concern. The Committee trusts that this engagement will continue into the post-implementation stages of IPSAS.**

V. Actions to be taken by the General Assembly

34. **Taking into account the observations and recommendations contained in the preceding paragraphs and the issues raised by the Board of Auditors, the Advisory Committee recommends that the General Assembly take note of the progress made since the issuance of the sixth progress report and that it request the Secretary-General to continue to report on the status of IPSAS implementation projects in the United Nations Secretariat and throughout the United Nations system.**